



Memorandum

California Public Employees' Retirement System

Date: December 1, 2005

From: Mark Anson
Chief Investment Officer

Subject: November 21, 2005 Meeting with Alcatel – Sudan Activities
(*The following summarizes remarks made by representatives of Alcatel.*)

Attendees - Alcatel:

Serge Tchuruk, Chief Executive Officer

Attendees - CalPERS:

Mark Anson, Chief Investment Officer

Background

Alcatel is a global communications company. It develops and integrates technologies, applications and telecomm services around the world. It generates revenues from the fixed land line, mobile, and specialized communications (video, fiber optics, and cable) markets. It also provides broadband wireless services, video software applications and satellite telecommunications.

It operates in 130 countries and has a workforce of 56,000. Its 2004 revenues were 12.3 billion Euros—about \$14.8 billion.

Alcatel's Operations in the Sudan

Alcatel's business revenues from the Sudan are approximately 50 million euros or about \$60 million USD. This represents 0.4% of Alcatel's total revenues.

Alcatel employs 52 people in the Sudan, less than 0.1% of its total workforce.

Alcatel has contracts with Petrodar, BTCL, and Sudatel to provide hardware and labor to install the hardware for telecommunication facilities.

Sudatel is 26% owned by the Sudanese government, while Petrodar is jointly owned by PetroChina and the Malaysian national petroleum company. BTCL (British Telecom) is independent of the Sudanese Government.

Alcatel has not made an investment in the Sudan, it only sells hardware and provides employees to integrate the hardware for clients.

Alcatel does not have any business relationship with the Sudanese Government, although it does have a hardware contract with Sudatel, which is partly owned by the Sudanese Government.

Alcatel is not taxed on its hardware sales by Sudan, but is taxed on the services it provides to install the hardware. The tax rate is approximately 5%.

Alcatel has no plans to invest its capital in the Sudan to build plants or facilities. Its involvement is strictly due to providing hardware and services to install the hardware.

Alcatel's Ethics Policies

Alcatel has a 16 point Statement of Business Practices that provide explicit guidance for the ethical conduct of its employees. Of particular interest is Statement #11:

Alcatel will support and respect, with its sphere of influence, the protection of international human rights set out in the United Nations' Universal Declaration of Human Rights, the International Labor Organization's fundamental conventions and the Global Compact. In particular, the Company supports the effective elimination of all forms of compulsory labor and child labor as defined by the ILO. It will make this a criterion in the management of its suppliers and sub-contractors.

When asked whether their sphere of influence could extend to the Sudan, they agreed that it could. More concretely, Alcatel agreed to perform a formal review of its business operations in the Sudan through its Ethics Committee to see what more Alcatel can do.

Alcatel's Position

Alcatel does not do business directly with the Sudan Government, and believe that they do not have any influence with the Government. However, Alcatel believes that one way that it can help to bring the bloodshed of Sudan to light is through better communication both within the country and with the outside world.

Alcatel's business in the Sudan is a tiny fraction of their overall business. Nonetheless, they feel frustrated at not being able to do more in the Sudan. Yet, when asked whether they had been contacted by Amnesty International or other Human Rights organization, they could not answer definitively. Consequently, they agreed to perform a formal review through their Ethics Committee to see if there is a way to provide better assistance to stop the genocide in the country.